

To the Members of the California State Assembly:

I am returning Assembly Bill 1404 without my signature.

This bill limits a regulated entity's use of greenhouse gas (GHG) emission compliance offsets to no more than ten percent of its GHG reductions achieved through market mechanisms during any given compliance period.

This bill is premature and restricts the design approaches the Air Resources Board (ARB) is considering for cap-and-trade under the Climate Change Scoping Plan.

ARB is working diligently to craft the proper balance of regulatory and market mechanisms to achieve mandated emission reductions while protecting and enhancing California's economy. To that end, ARB has convened a panel of nationally recognized economic and financial experts to serve on the Economic and Allocation Advisory Committee to help design market-based compliance mechanisms as part of AB 32 (Chapter 488, Statutes of 2006) implementation.

A balanced approach is of vital importance and this bill would only serve to foreclose the opportunity to consider more options and fully vet the State's design of an effective compliance offset program.

For these reasons, I am unable to sign this bill.

Sincerely,

Arnold Schwarzenegger